



WEEKLY OUTLOOK



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PLANTING INTENTIONS PROVIDE MARKET SURPRISE

The USDA's *Prospective Plantings* report provided more than the usual number of surprises. Producers reported intentions to shift significant acreage from corn to soybeans and to sharply reduce acreage of durum wheat.

Producers reported intentions to plant only 78.019 million acres of corn in 2006, 3.74 million less than planted in 2005. The decline is about 2.5 million acres more than the average pre-report guess. Those intentions are widespread geographically, with the exception of Minnesota and North Dakota, where intentions are unchanged and up 240,000 acres, respectively. The largest decline, 700,000 acres, is planned in Illinois. The large decline there reflects the combined increase in winter wheat seedings and intentions to increase soybean acreage. Intentions for planting of all feed grains included in the March report (corn, sorghum, barley, and oats) totaled 92.493 million acres, 3.841 million less than the area planted in 2005. Barley acreage is scheduled to decline by 208,000 (5.4 percent) while oat seedings are expected to increase by 78,000 (1.8 percent).

For soybeans, producers reported intentions to plant a record 76.895 million acres in 2006, 4.753 million more than planted in 2005 and 2.675 million more than the average pre-report guess. The planned increase spans all producing regions except the southeast, where intentions are 71,000 acres (3.1 percent) below actual plantings in 2005. The largest planned increase (1.2 million acres) is in North Dakota, followed by Illinois (600,000 acres) and Indiana (500,000 acres). Intentions for all oilseeds included in the March report (canola, flaxseed, peanuts, soybeans, and sunflower) totaled 82.295 million acres, 3.645 million more than planted in 2005. Plans are to reduce the acreage of each of the crops other than soybeans.

Planted acreage of winter wheat and intentions for spring wheat total 57.128 million acres, 101,000 fewer acres than seeded last year. Winter wheat seedings are up by 971,000 acres (2.4 percent) while intentions for durum wheat are down 935,000 acres (33.9 percent) and intentions for other spring wheat are down 137,000 acres (1 percent). North Dakota producers plan to reduce acreage of all spring wheat by 1.08 million acres (12.3 percent).

Unlike the planting intentions estimates, the estimates of March 1, 2006 inventories of corn, soybeans, and wheat were almost identical to the average pre-report expectations. At 6.987 billion

bushels, the March 1 inventory of corn exactly equaled the average pre-report estimate. The stocks figure implies that 1.614 billion bushels of corn were fed in the second quarter of the marketing year and that 3.855 billion bushels were fed in the first half of the marketing year. If feed and residual use of corn is following a typical seasonal pattern that results in 64 percent of the marketing year total use occurring in the first half of the year, use for the year is on track to reach about 6.025 billion bushels. The recent large increase in the number of cattle on feed, however, should be expected to push that total a little higher. The current USDA forecast is for use of 6 billion bushels.

At 1.669 billion bushels, the March 1 inventory of soybeans was record larger, but about 10 million less than the average trade guess. The stocks figure implies that seed, feed, and residual use of soybeans during the first half of the marketing year totaled 175.8 million bushels. That level of use is historically consistent and provides evidence that the size of the 2005 harvest has been accurately estimated.

With the U.S. average corn yield near trend value in 2006, intended acreage points to a crop of about 10.6 billion bushels. As pointed out last week, corn use during the 2006-07 marketing year could balloon to about 11.5 billion bushels. Under that scenario, September 1, 2007 inventories would be reduced to about 1.34 billion bushels, suggesting a 2006-07 marketing year average farm price of about \$2.30 per bushel. Futures settlement prices on March 31 pointed to a 2006-07 average farm price of about \$2.60 per bushel.

With the U.S. soybean yield near trend value in 2006, intended acreage points to a crop of about 3.2 billion bushels. Under that scenario, September 1, 2007 stocks would grow to about 750 million bushels, pointing to a 2006-07 average farm price of about \$5.20, at best, and perhaps significantly lower. It is difficult to anticipate the price of soybeans at the potentially huge level of stocks relative to the level of consumption since there is no historical experience of such a large stocks-to-use ratio. Futures settlement prices on March 31 pointed to a 2006-07 marketing year average farm price of about \$5.95.

As mentioned before, it appears that markets made a mistake by encouraging a planned shift from corn to soybean acreage in the U.S. in 2006, particularly the magnitude of shift currently planned. The market must now try to quickly remedy that mistake by encouraging producers to moderate the shift. Prices certainly moved in that direction after the report. At an average yield of 40 bushels for soybeans and 150 bushels for corn, the market on March 31 reduced the potential profitability of soybeans relative to corn by nearly \$17 per acre. It appears that prices may need to continue to change in favor of corn over soybeans. In addition, if 2006 yields are near trend value, deferred futures prices are still overvalued by a considerable amount for both crops.

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